

Message Text

LIMITED OFFICIAL USE

PAGE 01 COPENH 04594 01 OF 02 030959Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 AGRE-00 OES-07 /087 W
-----059294 031010Z /13

R 030730Z AUG 77
FM AMEMBASSY COPENHAGEN
TO SECSTATE WASHDC 4860
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 COPENHAGEN 4594

USEEC

USOECB

E.O.: 11652: N/A
TAGS: EFIN, EGEN, DA
SUBJ: CONTEMPLATED MEASURES TO COPE WITH DANISH ECONOMIC
AND FINANCIAL PROBLEMS

REF : COPENHAGEN 4461

BEGIN UNCLASSIFIED

SUMMARY: THE DANISH GOVERNMENT ON JULY 30 PRESENTED A COMPREHENSIVE ECONOMIC PROGRAM DESIGNED TO REDUCE THE BALANCE OF PAYMENTS DEFICIT BY DOLS. 300-400 MILLION PER YEAR OVER THE 1978-80 PERIOD BY INCREASED TAXATION WHILE OFFSETTING THE ADVERSE EMPLOYMENT EFFECTS BY VARIOUS DIRECT AND INDIRECT INCENTIVES. THE MINORITY SOCIAL DEMOCRATIC GOVERNMENT WILL NEGOTIATE THE DETAILS OF THE PROGRAM WITH OTHER POLITICAL PARTIES AND HOPES TO ATTAIN BROAD SUPPORT FOR A COM-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 COPENH 04594 01 OF 02 030959Z

PROMISE LATER THIS MONTH. END SUMMARY.

1. THE MINORITY SOCIAL-DEMOCRATIC DANISH GOVERNMENT ON JULY 30 CALLED TOGETHER REPRESENTATIVES OF SUPPORTING AND OPPOSITION PARTIES AS WELL AS LABOR AND INDUSTRIAL ORGANIZATIONS IN ORDER TO INTRODUCE THE GENERAL OUTLINE OF A COMPREHENSIVE ECONOMIC PROGRAM DESIGNED TO REDUCE THE CURRENT TWO BILLION

DOLLAR BALANCE OF PAYMENTS DEFICIT BY 300-400 MILLION PER YEAR OVER A THREE-YEAR PERIOD. IMMEDIATELY AFTER THE INTRODUCTION OF THE PROGRAM, THE GOVERNMENT ENTERED INTO TALKS WITH INDIVIDUAL POLITICAL PARTY LEADERS, HOPING TO ATTAIN A MAJORITY FOR THE PROGRAM IN AN EXTRAORDINARY SESSION OF THE FOLKETING LATER THIS MONTH.

2. THE CORE OF THE PROGRAM IS A COMPLEX OF NEW OR INCREASED TAXES WHICH, IF ADOPTED, WOULD INCREASE BUDGET REVENUE BY DOLS. 1.2 BILLION PER ANNUM OR ABOUT 8 PERCENT OF CURRENT REVENUE. ADMITTING THAT THIS FISCAL RESTRAINT WOULD CAUSE A DROP IN EMPLOYMENT OF ABOUT 20,000 MAN YOARS, THE GOVERNMENT PROPOSED TO OFFSET THE ADVERSE EFFECT BY A PROGRAM OF EMPLOYMENT INCENTIVES AT A COST OF ABOUT DOLS. 500 MILLION PER ANNUM. ASSUMING THAT THE PUBLIC INCENTIVES WOULD TRIGGER SIGNIFICANT AMOUNTS OF PRIVATE INVESTMENT, THE GOVERNMENT ESTIMATED THAT THE PROGRAM WOULD ASSIST EMPLOYMENT AT THE RATE OF 40,000 MAN YEARS AND THAT THE OVERALL EFFECT OF THE COMBINED PROGRAM WOULD THUS BE AN EMPLOYMENT INCREASE OF ABOUT 20,000 MAN YEARS, OR ABOUT ENOUGH TO ABSORB THE ANNUAL INFLOW TO THE LABOR MARKET. ANY NET IMPROVEMENT IN THE RATE OF UNEMPLOYMENT WAS NOT ANTICIPATED.

3. SINCE INDIVIDUAL TAX MEASURES WOULD BE SUBJECT TO NEGOTIATION, THE PROGRAM WAS ONLY BROADLY FEATURED AS FOLLOWS:

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 COPENH 04594 01 OF 02 030959Z

A. INCREASES OF TRADITIONAL SPOT TAXES (PRESUMABLY ON AUTOMOBILES, GASOLINE, LIQUOR AND TOBACCO) AND NEW EXCISE TAXES ON COMMODITIES WHICH PARTICULARLY CHANGE THE IMPORT ACCOUNT. THE LATTER CATEGORY WOULD EXPECTEDLY INCLUDE A GENERAL ENERGY TAX. THESE TAXES WOULD PROVIDE THE BULK OF THE ADDITIONAL REVENUE, OR ABOUT 70 PERCENT.

B. AN INCOME SURTAX LEVIED PROGRESSIVELY ON INCOMES ABOVE A CERTAIN LEVEL, TO BE PUT INTO EFFECT THIS FALL AND TO REMAIN IN EFFECT FOR THE NEXT THREE YEARS.

C. A TAX ON THE INCREASED VALUE OF REAL PROPERTY, INCLUDING ONE-FAMILY HOMES WHICH THUS FAR HAVE BEEN EXEMPT FROM CAPITAL GAINS TAX. IT IS APPARENTLY THE INTENTION TO TAX ONLY THAT PART OF THE CAPITAL GAIN WHICH EXCEEDS THE OVERALL INFLATION RATE, BUT THE GAIN WOULD BE TAXED WHETHER THE PROPERTY IS SOLD OR NOT, IN THE LATTER INSTANCE BY AN IMPUTED PUBLIC MORTGAGE ON THE PROPERTY.

4. SIXTY-FIVE PERCENT OF THE EXPENSE FOR THE EMPLOYMENT INCENTIVE PROGRAM, AS OUTLINED, WOULD BE CHARGED TO THE CENTRAL GOVERNMENT BUDGET AND 35 PERCENT TO LOCAL GOVERNMENTS. IT

WOULD FALL LARGELY IN FOUR CATEGORIES:

A. INDUSTRIAL SUPPORT, 23 PERCENT.

B. ENERGY SAVING MEASURES, 39 PERCENT.

C. GOVERNMENT SERVICES, 31 PERCENT

D. PUBLIC AND SUBSIDIZED CONSTRUCTION, 7 PERCENT.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 COPENH 04594 02 OF 02 031001Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 AGRE-00 OES-07 /087 W
-----059332 031010Z /13

R 030730Z AUG 77
FM AMEMBASSY COPENHAGEN
TO SECSTATE WASHDC 4861
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 2 OF 2 COPENHAGEN 4594

USEEC

USOECD

5. THE INDUSTRIAL SUPPORT PROGRAM WOULD INCLUDE IMPROVED EXPORT CREDITS, LOANS TO REGIONAL DEVELOPMENT AND SMALL BUSINESS, PRODUCT DEVELOPMENT SUBSIDIES, AND LOANS TO AGRICULTURE AND FISHERIES. ALSO WAGE SUBSIDIES WOULD BE GRANTED TO INDUSTRIES WHICH EMPLOY YOUTH LABOR.

6. THE ENERGY-SAVING PROGRAM WOULD BE LARGELY AN EXTENSION OF EXISTING PROGRAMS FOR INSULATION AND OTHER ENERGY SAVING DEVICES IN HOMES AND INDUSTRY, BUT ALSO APPROPRIATIONS FOR ALTERNATIVE ENERGY DEVELOPMENT AND FOR COMMUNITY HEATING PLANTS.

7. GOVERNMENT SERVICES WOULD BE EXPANDED WITH ADDITIONAL EMPLOYMENT IN THE FIELDS OF THE PTT, CUSTOMS SERVICES, LABOR

EXCHANGES, AND VARIOUS SOCIAL AND HEALTH SERVICES.

8. IN THE CONSTRUCTION SECTOR, HARBOR CONSTRUCTION AND VAR-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 COPENH 04594 02 OF 02 031001Z

IOUS EDUCATIONAL FACILITIES WOULD BE EXPEDITED AND SUBSIDIES
PROVIDED FOR INDUSTRIAL AND FARM CONSTRUCTION.

9. BEYOND THE FISCAL-ORIENTED PROGRAM OF INCREASED REVENUES
AND OUTLAYS, THE GOVERNMENT PROPOSED TO MAKE THE ALREADY-
ESTABLISHED INCOMES POLICY (LAST YEAR'S 6 PERCENT "SOCIAL
CONTRACT" TARGET) MORE EFFECTIVE BY A SHARPENING OF PRICE
CONTROLS TO PROHIBIT THE PASSING-ON OF NON-CONTRACTURAL WAGE
COSTS, I.E., WAGE-DRIFT COSTS, BY INCREASED PRICES. THE GOV-
ERNMENT ALSO WANTED TO EXTEND THE INCOMES POLICY BEYOND THE
EXPIRATION OF THE PRESENT LABOR CONTRACT PERIOD IN 1979 AND
TO SECURE TRADE UNION COOPERATION FOR THIS POLICY BY PLEDG-
ING AN "ECONOMIC DEMOCRACY" SYSTEM BASED ON GOVERNMENT CON-
TRIBUTIONS TO THE LABOR-MANAGEMENT PENSION PLAN, WHICH ARE
CURRENTLY BEING MADE IN COMPENSATION FOR THE PARTIALLY SUS-
PENDED WAGE ESCALATION.

10. ADMITTING (1) THAT THE PROPOSED PROGRAM DOES NOT PROVIDE
ANY REDUCTION IN UNEMPLOYMENT AND (2) THAT BALANCE OF PAY-
MENTS CONSIDERATIONS WILL NOT AT PRESENT PERMIT OTHER FISCAL
MEASURES TO MITIGATE UNEMPLOYMENT, THE GOVERNMENT INVITED NEW
NEGOTIATIONS WITH LABOR AND MANAGEMENT. THE PURPOSE OF THESE
WOULD BE TO MODIFY CURRENT LABOR CONTRACTS WITH REGARD TO
SUCH LABOR-SHARING DEVICES AS OVERTIME RESTRICTIONS, REDUCED
WORKING HOURS, AND WORKERS' PRE-RETIREMENT. END UNCLASSIFIED.

BEGIN LIMITED OFFICIAL USE

11. THE NET EFFECT OF THE PROPOSED PROGRAMS WOULD BE ONE OF
FISCAL RESTRAINT WHICH SHOULD REDUCE THE BUDGET DEFICIT SIG-
NIFICANTLY OVER THE THREE-YEAR PERIOD. IN THE GOVERNMENT'S
OPINION, THIS SHOULD PERMIT, IN TURN, SOME EASING OF MONETARY
RESTRAINT (HIGH INTEREST, CREDIT RESTRICTIONS). AS PREVIOUSLY
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 COPENH 04594 02 OF 02 031001Z

REPORTED, WE DO NOT BELIEVE THAT SUCH EASING WILL BE IMMED-
IATELY FORTHCOMING, OR SUBSTANTIAL, BECAUSE FOREIGN EXCHANGE
RESERVE CONSIDERATIONS FORCE BANKING AUTHORITIES TO KEEP
DOMESTIC MONEY TIGHT IN ORDER TO ENCOURAGE UTILIZATION WITH
THE PRESENTATION OF THE ECONOMIC PROGRAM, THE GOVERNMENT SAID
IT WOULD BE WILLING TO DISCUSS A TEMPORARY PUBLIC EXCHANGE

RATE GUARANTEE SCHEME ON FINANCIAL LOANS; THIS COULD REDUCE SOMEWHAT THE SIGNIFICANCE OF KEEPING THE DOMESTIC INTEREST RATE AT ITS PRESENT HIGH LEVEL.

12. ALTHOUGH THE POLITICAL PARTIES WHICH SUPPORTED THE GOVERNMENT'S PREVIOUS ECONOMIC PROGRAM IN AUGUST 1976 HOLD A MAJORITY IN THE FOLKETING SINCE THE FEBRUARY 1977 GENERAL ELECTIONS, A MAJORITY FOR THE NEW PROGRAM IS FAR FROM CERTAIN IN VIEW OF ITS SEVERAL CONTROVERSIAL FEATURES. THE POLITICAL NEGOTIATIONS NOW INITIATED ARE NOT EXPECTED TO REACH THEIR CLIMAX UNTIL PRIME MINISTER ANKER JORGENSEN RETURNS FROM A TRIP TO GREENLAND TWO WEEKS, IMMEDIATELY BEFORE THE FOLKETING CONVENES FOR ITS EXTRAORDINARY SESSION.
DEAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: UNEMPLOYMENT, ECONOMIC PROGRAMS, BALANCE OF PAYMENTS, OPPOSITION PARTIES
Control Number: n/a
Copy: SINGLE
Sent Date: 03-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977COPENH04594
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770277-1170
Format: TEL
From: COPENHAGEN USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197708103/aaaadjhf.tel
Line Count: 238
Litigation Code IDs:
Litigation Codes:
Litigation History: Hold (001 Tobacco) added on 4/16/2009 3:39:06 PM by WASHDCMcGoldRJ, Hold (001 Tobacco) removed on 4/16/2009 3:45:02 PM by WASHDCMcGoldRJ (Litigation Hold Lifted)
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 1394144f-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 COPENHAGEN 4461
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 14-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1408984
Secure: OPEN
Status: NATIVE
Subject: CONTEMPLATED MEASURES TO COPE WITH DANISH ECONOMIC AND FINANCIAL PROBLEMS
TAGS: EFIN, EGEN, DA
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/1394144f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009